

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SSO-00 DRC-01 INRE-00 NSCE-00

USIE-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00 FRB-02

H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-07 PA-04

RSC-01 AID-20 CIEP-02 SS-20 STR-08 TAR-02 TRSE-00

PRS-01 SP-03 FEA-02 OMB-01 SWF-02 /156 W

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O R 172221Z APR 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC IMMEDIATE 0752

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: ETRD, EC

SUBJ: BANANA EXPORT TAX: MFN IMPLAICATIONS

REF: A. STATE 76867; B. SZABO/STEBBING TELECON MARCH 17, 1974

1. GOE IS CONSIDERING PACKAGE OF MEASURES TO TAKE EFFECT
APRIL 30, NONE AS YET ANNOUNCED OFFICIALLY, AFFECTING THE
BANANA OFFICIAL PRICE, EXPORT TAXES, REMUNERATION OF PRODUCERS,
AND NEW PLANTING. GOE OFFICIAL RESPONSIBLE FOR DRAFTING DECREE
ON OFFICIAL PRICE HAS ASSURED EMBOFF THAT NEW MEASURES WILL NOT
DISCRIMINATE BETWEEN TRADITIONAL AND NON-TRADITIONAL MARKETS.
IM EMBASSY'S JUDGMENT, HOWEVER, NONE OF THE MEASURES OF WHICH
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WE ARE AWARE WILL AFFECT THE FOB PRICE OF BANANAS MORE THAN

MINUTELY.

2. THE GOE IS CONSIDERING FOLLOWING MEASURES:

A. AN INCREASE IN THE BANANA OFFICIAL PRICE FROM \$1.40 TO \$1.80 PER 43 POUND BOX, THEREBY HONORING THE PANAMA CITY COMMITMENT;

B. ABOLISHMENT OF THE AD VALOREM PORTION OF THE BANANA EXPORT TAX; AT 6 PERCENT OF THE \$1.40 OFFICIAL PRICE, THIS TAX NTW EQUALS \$0.084 PER 43 POUND BOX;

C. AN INCREASE IN PAYMENTS TO PRODUCERS OF THE SAME AMOUNT, \$0.084 PER 43 POUND BOX;

D. PROHIBITION OF NEW PLANTING.

3. SINCE THE AVERAGE FOB PRICE IS ABOUT \$1.60 PER BOX, THE NEW OFFICIAL PRICE WILL BE ABOVE IT. THIS, HOWEVER, DOES NOT AUTOMATICALLY PUSH UP FOB PRICE BY EQUIVALENT AMOUNT. UNLESS GOE CHANGES DEFINITION OF OFFICIAL PRICE, IT WILL NOT CONSTITUTE A MINIMUM PRICE. RATHER, IT IS THE BASIS FOR THE AD VALOREM EXPORT TAX, TO BE ABOLISHED. SECONDLY, IT IS THE AMOUNT OF FOREIGN EXCHANGE THAT THE EXPORTING COMPANY MUST DEPOSIT IN THE CENTRAL BANK TO EXCHANGE FOR SUCRES. AT THE TIME THAT THE REFERENCE PRICE WAS SET AT \$1.40 PER BOX, JANUARY 1971, NO FREE FOREIGN EXCHANGE MARKET EXISTED. NOW, HOWEVER, A FREE MARKET EXISTS IN WHICH DOLLAR EXCHANGE RATE IS ALMOST IDENTICAL TO THE OFFICIAL RATE. AN EXPORTER CAN GO FROM DOLLARS TO SUCRES (CENTRAL BANK) TO DOLLARS (FREE MARKET) AT VERY LITTLE EXCHANGE LOSS, ON THE ORDER OF FOUR-TENTHS OF ONE PERCENT. CONSEQUENTLY, RAISING THE REFERENCE PRICE BY 40 CENTS INVOLVES A COST OF ROUGHLY SIXTEEN-HUNDREDTHS OF ONE CENT PER BOX IN THE FORM OF EXCHANGE LOSS, IF AN EXPORTER SHOULD WANT TO RECONVERT TO DOLLARS. THIS WOULD AFFECT THE FOB PRICE OF BANANAS MINUTELY, IF AT ALL.

4. ON THE OTHER HAND, IF THE PRICE OF COMPETITORS' BANANAS RISES TO THE U.S., THE PRICE OF ECUADOREAN BANANAS MAY WELL RISE ALSO, BUT NOT AS MUCH, UNDER SUCH A PRICE UMBRELLA. THIS WOULD BE DUE TO MARKET CONDITIONS, NOT MEASURES UNDERTAKEN BY THE GOE.
BREWSTER

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